

**SOUTH CAROLINA  
DEPARTMENT OF SOCIAL SERVICES**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2019**



Independent Accountant's Report on Applying Agreed-Upon Procedures

July 14, 2020

Mr. Michael Leach, State Director  
South Carolina Department of Social  
Services Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by management of the South Carolina Department of Social Services (the Department), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2019. The Department's management is responsible for the systems, processes and behaviors related to financial activity. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment 1 either for the purpose for which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Department. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Errors of less than \$1,000 related to cash receipts and non-payroll cash disbursements transactions.
- Errors of less than \$10,000 related to the operating leases reporting package and \$5,000 related to all other reporting packages.

This report is intended solely for the information and use of the management of the South Carolina Department of Social Services and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA  
State Auditor

**South Carolina Office of the State Auditor**  
**Agreed-Upon Procedures Related to the South Carolina Department of Social Services (L04)**

**Cash Receipts/Revenues**

1. Compare current year revenues at the fund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain from management an understanding of the following variations: Earmarked Fund: Miscellaneous Revenue (General Ledger [G/L] account 4530030000 [fund 34420001]), Miscellaneous Revenue – CSE (G/L account 4530030014 [fund 34467000]), and Allocations from State Agencies (G/L account 4890080000 [fund 37640000]); and Federal Fund: Federal Operating Grants – Restricted (G/L account 4280020000 [fund 50020000]).
2. Confirm that any agency fee increases are in accordance with Proviso 117.7 of the FY19 Appropriation Act.

We found no exceptions as a result of the procedures.

**Cash Disbursements/Non-Payroll Expenditures**

3. Compare current year non-payroll expenditures at the fund and account level to those of the prior year. Obtain from management an understanding of the following G/L account series variations: General Fund: Land, Buildings, and Infrastructure (507 - accounts) and Case Services (511 - accounts), and Earmarked Fund: Contractual Services (502 - accounts), Case Services (511 - accounts), and Allocations (517 - accounts).
4. Haphazardly select ten non-payroll disbursements (excluding transactions from G/L accounts 5020077220, 5041020000, 5110010000, 5111010000, and 5113010000) and inspect supporting documentation to determine:
  - The transaction is properly completed as required by Department procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
  - All supporting documents and approvals required by Department procedures are present and agree with the invoice.
  - The transaction is a bona fide expenditure of the Department.
  - The transaction is properly classified in the general ledger.
  - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
  - Disbursements are recorded in the proper fiscal year.
  - Clerical accuracy / confirm proper sales/use tax.

For federally funded cash disbursements/non-payroll expenditures, inspect supporting documentation to determine:

- Charges are necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment and applied uniformly to both federally assisted and other activities of the recipient.
5. Haphazardly select five purchasing card (P-Card) transactions from the Office of the State Comptroller General's (CG) listing of purchasing card transactions for Fiscal Year 2019 and inspect supporting documentation to determine:
    - The cardholder is an authorized user and individual credit limits have been properly approved in accordance with Department policies.
    - The purchase is authorized based on the cardholder's job title/position.
    - The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
    - The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

## Cash Disbursements/Non-Payroll Expenditures (Continued)

### Findings

- A. While comparing the changes in expenditures, we identified that maintenance of effort related to the Temporary Assistance for Needy Families (TANF), in the amount of \$43,178,910, was not recorded in fiscal year 2019.
- B. We identified the following issues related to purchasing card transactions:
- Three transactions exceeded the single transaction limit due to transaction splitting.
  - Two monthly purchasing statements were not signed by both the cardholder and supervisor.
  - One purchase was improperly procured with a purchasing card (P-card) rather than with a purchase order.
  - The cardholder for one purchase was a temporary employee.
  - The Department was unable to provide adequate supporting receipts and the monthly purchasing summary for one transaction.

### Management's Response

- A. Management agrees with this finding. The TANF Maintenance of Effort (MOE) is recognized by posting equal amounts of revenues and expenditures to recognize program-qualified expenditures made by the South Carolina Department of Education. The MOE was properly recognized and recorded in the fiscal 2018 and 2019 federal financial reports. However, due to staff turnover, the posting of the 2019 entry in the general ledger was inadvertently missed. The TANF MOE for fiscal 2020 was properly recorded in October 2019. To avoid oversights like this, the Department's Financial Services staff have already piloted the use of an accounting and reporting checklist. In fiscal year 2021 management will fully implement and expand the use of this tool to include monthly, quarterly and year-end closing checklists that encompass both financial reporting and grant reporting requirements. All analyses and journal entries routinely required will be included, and the TANF MOE entry will certainly be among them. The checklist requires sign-off by Financial Services supervisors and the Controller to ensure all checklist items are completed.
- B. Management agrees with this finding. To improve the Department's P-Card program operation and compliance, the Department has implemented comprehensive reforms in the program, starting with an update and strengthening of its P-Card policy, effective February 28, 2020. The new policy requires that all cardholders and liaisons receive P-Card training. Further, beginning in August 2020, the training will be administered through MySCLearning, which will automatically require completion, at least annually by all cardholders and liaisons, and prior to the granting of access to employees newly hired and/or newly assigned duties that require involvement in the program. P-Card access will be suspended or denied for those who fail the training until they successfully re-take and pass it.

In addition, to strengthen individual accountability, beginning with the period ending May 27, 2020, the Department began requiring signatures on P-Card statements as well as on certification documents.

Also, in May 2020, Financial Services provided the P-Card Administrator with a list of all full-time, permanent employees, which the Administrator used to verify that only active, full-time employees had access to P-Cards. This process will be completed monthly beginning in August 2020.

Finally, the Department's new policy requires that cardholders upload all receipts into Bank of America Works, where they are retained electronically for ready access. The P-Card Administrator and Liaisons are now responsible for monitoring compliance with this requirement.

## **Cash Disbursements/Non-Payroll Expenditures (Continued)**

### **Management's Response (Continued)**

Employees who violate these policies will be warned and may be subject to having their P-Card access suspended for 30 days. Employees who continue to demonstrate disregard for the above policies will be subject to disciplinary action in accordance with the Department's Human Resources policy.

Management believes the full array of improvements described above will be effective in assuring compliance with rules governing P-Card use, approval and documentation.

### **Payroll**

6. Haphazardly select five employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Department's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
7. Haphazardly select five employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Department's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.
8. Haphazardly select five bonus pay disbursements to determine:
  - The employee does not make more than \$100,000 annually.
  - The bonuses received during the year did not exceed \$3,000.
  - The payment amount agreed to supporting documentation and the bonus was given for a proper reason in accordance with Department policy.
  - The bonus pay was approved by the appropriate supervisor.

### **Finding**

We identified one employee who terminated employment during the fiscal year but was not removed from the payroll system in a timely manner. This employee was removed from the system approximately five pay periods after termination. According to the payroll remuneration statements, paychecks were issued to the employee in periods after the termination date.

### **Management's Response**

Management agrees with this finding. This problem occurred because a supervisor failed to submit the employee termination documentation to the Department's Human Resources promptly. Human Resources staff were able to recover a portion of the overpayments from the employee's unused annual leave which resulted in a \$1,791.67 balance due. Payroll Department staff sent the former employee a letter demanding repayment of the funds, but the Department received no response to its request. The Department's Financial Services staff was not informed of these events because the Payroll staff were not aware of the policy and process.

Management will work with Human Resources to more effectively communicate to supervisors and Department Human Resources liaisons the importance of processing termination documents promptly and the potential disciplinary action that can result from not doing so. In addition, Human Resources management has trained Payroll Department staff on the policies and procedures for timely and complete follow-up on overpayments, and Department Human Resources will send a second demand letter to the debtor/former employee. If no payment is received, Accounts Receivable staff will initiate further collection action, which ultimately may include referral of the debt to the South Carolina Department of Revenue for collection through interception of payments otherwise due to the debtor.

## Journal Entries and Transfers

9. Haphazardly select ten journal entries and transfers for the fiscal year to:

- Trace postings to the general ledger, confirming amounts agree with supporting documentation.
- Confirm transaction is properly approved.
- Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of the procedure.

## Reporting Packages

10. Obtain copies of fiscal year end reporting packages submitted to the CG. Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were submitted by the due date established by the CG's Reporting Policies and Procedures Manual.

11. In addition to the procedure above, perform the following:

- Capital Assets Reporting Package

Determine if responses and reported amounts are reasonable/accurate based on inspection of the South Carolina Enterprise Information System (SCEIS) general ledger, the SCEIS Asset History Sheet and/or Department prepared records. In addition, select five capital asset retirements and inspect supporting documentation and the SCEIS Asset History Sheet to determine that each asset was approved for removal and that the asset was properly removed from the Department's books/general ledger in accordance with the CG's Reporting Policies and Procedures Manual.

- Operating Leases Reporting Package

Determine if amounts agree to the SCEIS general ledger, the SCEIS Yearend Rptg Operating Lease Expense with Vendor report and/or Department prepared records. In addition, based on inspection of invoices and lease agreements, determine if rental payments were properly classified, coded and calculated by inspecting and recalculating the following reported amounts: (1) three haphazardly selected contingent rental payments; (2) one haphazardly selected payment for each vendor included in the remaining rental payment classification (One time or unusual in nature rental payments); and (3) the future minimum payments for five haphazardly selected leases. Also, confirm that the Department submitted copies of all leases to the CG in accordance with the CG's Reporting Package Instructions.

- Subsequent Events Questionnaire

Determine if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Department prepared records. In addition, haphazardly select five payable transactions from the amounts reported on the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified, calculated and reported and excluded from the original Accounts Payable Reporting Package submission.

## Findings

- A. We identified an overstatement of the future minimum lease schedule of \$36,927. For three leases the Department did not report future payments in the final lease period. Payments for one lease were miscalculated for three future periods. In addition, the Department erroneously reported three future lease payments that did not correspond to a lease.
- B. The Department was unable to provide adequate supporting documentation for three of the five asset retirements selected for inspection.

## **Reporting Packages (Continued)**

### **Management's Response**

- A. Management agrees with this finding. Given that the Department has over 150 active leases, completion of this reporting package involves the review and calculation of hundreds of data points, making it more susceptible to these kinds of mistakes. Beginning with the 2020 reporting package, management will add another level of review to help identify and correct any errors before submission.
- B. Management agrees with this finding. The Department has established documentation and approval policies that were not followed. The Department recently moved responsibility for the processes of tracking asset additions and retirements from the Department's Internal Operations staff to the Financial Services staff, where trained accounting staff will provide better oversight and enforce sound practices. In fiscal 2021 they will reinstitute past procedures to ensure all asset retirements are properly approved in writing in advance, on standard forms that require details about the locations and methods of disposals, and which identify the employees handling the disposals.

### **Acumatica Transactions**

12. Haphazardly select ten cash receipt transactions from Acumatica and inspect supporting documentation to:
- Agree transaction amount, date, payor, document number, and account classification to Acumatica.
  - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117 .1 of the Appropriation Act.
  - Ensure that both revenue collections and amounts charged are properly authorized by law.
  - Determine that receipts are recorded in the proper fiscal year.
13. Haphazardly select ten disbursement transactions from Acumatica and inspect supporting documentation to determine:
- Transaction invoice(s) agree(s) with Acumatica general ledger as to vendor, amount, number, and date.
  - All supporting documents and approvals required by Department procedures are present and agree with the invoice.
  - Determine that disbursements are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

### **Department-Specific Provisos/Laws**

14. Confirm compliance with the selected agreed-upon Department-specific state provisos by inquiring with management and observing supporting documentation, where applicable.
15. Confirm that an inventory of Department property, excluding expendables, was completed during the fiscal year as required by South Carolina Code of Laws section 10-1-140.

We found no exceptions as a result of the procedures.

### **Status of Prior Findings**

16. Through inquiry and inspection, determine if the Department has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

We found no exceptions as a result of the procedure.